

**LIMITED LIABILITY COMPANY**  
**VIDES INVESTĪCIJU FONDS**  
**(ENVIRONMENTAL INVESTMENT FUND)**

*2008 Annual Report prepared in accordance with  
International Financial Reporting Standards and Independent  
Auditors' Report*

**ENVIRONMENTAL INVESTMENT FUND**

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# ENVIRONMENTAL INVESTMENT FUND

## MANAGEMENT REPORT

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The first cycle of the EU Structural Funds co-financed project implementation was completed last year and the terms for the new planning period 2007 – 2013 were approved. The Environmental Investment Fund Ltd. (the Fund) provided support to our clients for mobilizing EU Structural Funds resources for the implementation of environmental infrastructure projects. All the projects of the Fund's clients have been fully completed and received co-financing by the ERDF and the state in the full amount. In order to facilitate the development of high quality projects, the Fund will provide all necessary support for the project development – preparing informative materials, organizing seminars and providing consultations for project developers in the future.

In the year 2008, the Fund concluded 19 new loan agreements with a total loan amount from the Fund of almost LVL 0.53 million. Mostly, these are projects co-financed by the Latvian Environmental Protection Fund for the development of water sector infrastructure. At the beginning of July, the loan with a total amount of EUR 3 million which was received from the Nordic Environmental Financing Corporation (NEFCO) at the end of 2005 and which was used for the implementation of ERDF co-financed water sector infrastructure, was fully repaid. At the end of 2008, negotiations were initiated for mobilizing a new credit line for similar projects that will be implemented within the new EU Structural Funds implementation period 2007 – 2013.

In cooperation with the United Nations Development Programme and the Ministry of Environment, the project "Environmentally sound disposal of PCB containing equipment and waste" was launched on 30 March 2006. The Fund provided an overall project implementation coordination function. The project will be completed by 31 March 2009. The project implementation can be evaluated as highly successful. A considerably greater volume of PCB containing equipment – 595t – has been disposed of within the project than it was planned initially (280t). To a great extent, this is due to the high interest of enterprises – in total 111 enterprises participated in the project.

In 2008, the Fund started activities in the field of development cooperation in order to share its experience in the field of environmental infrastructure project development, financing and implementation supervision. It is anticipated that the Fund will continue activities in this field in the future.

The Fund closed the year 2008 with a profit of LVL 77,195 and assets exceeding LVL 5.1 million. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests distributing the profit for the reporting year 2008 as follows:

- to transfer 50% of the Fund's net profit, or LVL 38,598, to the state budget pursuant to the Law on State and Municipal Capital Companies,
- to transfer the difference amounting to LVL 38,597 to retained earnings.

It is already the fifth year since the quality management system in accordance with the ISO 9001 standard was introduced. In February 2008, a supervision audit took place and no substantial non-conformities were identified. The results of this audit indicate that the quality management system implemented in the Fund works successfully. Compliance with the established procedures ensures that the Fund is not affected by such risks as market price risk, credit risk, liquidity risk, and cash flow risk (see Note 21).

We are confident that the Fund's cooperation with our clients that is based on the Fund's slogan – from project idea to its implementation together with the Environmental Investment Fund – will help continue to prepare and implement new environmental infrastructure projects.



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board Member



Romāns Mežeckis  
Board Member

Rīga,  
16 April 2009

## ENVIRONMENTAL INVESTMENT FUND

### REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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As at the date of signing of the financial statements:

#### Representative of State capital shareholder

<i>Name Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Guntis Puķītis	Representative of State capital shareholder	1 January, 2003

#### The Board

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Chairperson of the Board	18 October, 2004 *
Romāns Mežeckis	Board member	18 October, 2004 *
Askolds Kļaviņš	Board member	18 October, 2004 *

\* – reelected for another 3 year period commencing 3 October 2007

## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 23 for the years ended 31 December 2008 and 2007. The management also confirms that applicable Financial Reporting Standards have been followed and that the financial statements have been prepared on a going concern basis.
3. The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities. They are also responsible for operating the Fund in compliance with legislation of the Republic of Latvia.

On behalf of the management,




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Ilze Puriņa  
Chairperson of the Board



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Askolds Kļaviņš  
Board member



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Romāns Mežeckis  
Board member

Rīga,  
16 April 2009

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of SIA Vides Investīciju Fonds

### Report on the Financial Statements

We have audited the 2008 financial statements of SIA Vides Investīciju Fonds (the "Company"), which are set out on pages 7 through 23 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of SIA Vides Investīciju Fonds as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on page 3 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008

Ernst & Young Baltic SIA  
License No. 17



Iveta Vimba  
Member of the Board  
Latvian Sworn Auditor  
Certificate No. 153

Rīga, 16 April 2009

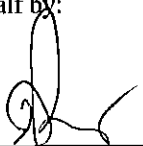
**ENVIRONMENTAL INVESTMENT FUND**

**INCOME STATEMENT  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

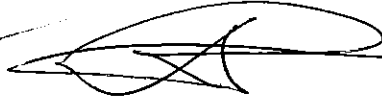
	Note	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
<i>Operating income</i>			
Interest income	3	256,477	337,395
Interest expense	4	(48,381)	(113,984)
<b>Net interest income</b>		<b>208,096</b>	<b>223,411</b>
Other operating income	5	20,056	20,380
<b>Other income, net</b>		<b>20,056</b>	<b>20,380</b>
<b>TOTAL OPERATING INCOME</b>		<b>228,152</b>	<b>243,791</b>
<i>Operating expense</i>			
Administrative expense	6	(142,930)	(178,928)
Depreciation	13	(5,389)	(6,231)
Other operating income	7	11,093	128
<b>TOTAL OPERATING EXPENSE</b>		<b>(137,226)</b>	<b>(185,031)</b>
<b>GROSS PROFIT BEFORE TAXES</b>		<b>90,926</b>	<b>58,760</b>
Corporate income tax	19	(13,963)	(9,651)
Deferred corporate income tax	19	232	(222)
<b>PROFIT FOR THE PERIOD</b>	8	<b>77,195</b>	<b>48,887</b>

*The accompanying notes on pages 11 to 23 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 16 April 2009 and signed on his behalf by:

  
\_\_\_\_\_  
Ilze Puriņa  
Chairperson of the Board

  
\_\_\_\_\_  
Askolds Kļaviņš  
Board member

  
\_\_\_\_\_  
Romāns Mežeckis  
Board member

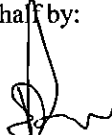
**ENVIRONMENTAL INVESTMENT FUND**

**BALANCE SHEET  
AS OF 31 DECEMBER 2008 AND 2007**


	Note	31.12.2008. LVL	31.12.2007. LVL
<b>ASSETS</b>			
<i><b>CURRENT ASSETS</b></i>			
Cash	9	53,952	727,488
Accrued interest income		56,401	75,055
Other current assets	10	7,972	9,055
Loans to customers	11	979,301	954,658
<b>TOTAL</b>		<b>1,097,626</b>	<b>1,766,256</b>
<i><b>NON-CURRENT ASSETS</b></i>			
Fixed assets	13	12,452	16,019
Loans to customers	11,12	4,011,611	5,621,801
<b>TOTAL</b>		<b>4,024,063</b>	<b>5,637,820</b>
<b>TOTAL ASSETS</b>		<b>5,121,689</b>	<b>7,404,076</b>
<b>LIABILITIES AND EQUITY</b>			
<i><b>CURRENT LIABILITIES</b></i>			
Phare Financing Agreement	14	14,534	14,534
NEFCO Loans	15	201,054	230,234
Deferred income	16	765	1,966
Taxes		690	223
Accrued liabilities		6,638	5,477
Accounts payable to suppliers and contractors	17	3,502	4,088
<b>TOTAL</b>		<b>227,183</b>	<b>256,522</b>
<i><b>NON-CURRENT LIABILITIES</b></i>			
Deferred corporate income tax	19	388	620
Phare Financing Agreement	14	8,206	22,740
NEFCO Loans	15	248,630	2,550,908
<b>TOTAL</b>		<b>257,224</b>	<b>2,574,268</b>
<i><b>SHAREHOLDER'S EQUITY</b></i>			
Share capital	18	4,427,196	4,427,196
Retained profit		210,086	146,090
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>4,637,282</b>	<b>4,573,286</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,121,689</b>	<b>7,404,076</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments	20		
Committed loans granted, not drawn down		-	-
		-	-

The accompanying notes on pages 11 to 23 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 16 April 2009 and signed on his behalf by:

  
 \_\_\_\_\_  
 Ilze Purina  
 Chairperson of the Board

  
 \_\_\_\_\_  
 Askolds Kļaviņš  
 Board member

  
 \_\_\_\_\_  
 Romāns Mežeckis  
 Board member



# ENVIRONMENTAL INVESTMENT FUND

## STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

	Share capital LVL	Retained surplus LVL	Total LVL
At 31 December 2006	4,427,196	112,933	4,540,129
Dividends	-	(15,730)	(15,730)
Profit for the year	-	48,887	48,887
At 31 December 2007	4,427,196	146,090	4,573,286
Dividends	-	(13,199)	(13,199)
Profit for the year	-	77,195	77,195
At 31 December 2008	4,427,196	210,086	4,637,282

*The accompanying notes on pages 11 to 23 are an integral part of the financial statements.*

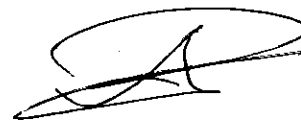
The financial statements were approved by the Representative of State capital shareholder on 16 April 2009 and signed on his behalf by:



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board member



Romāns Mežeckis  
Board member

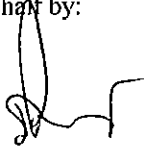
**ENVIRONMENTAL INVESTMENT FUND**

**CASH FLOW STATEMENT  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

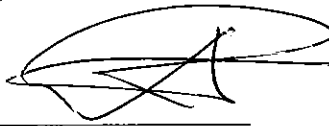
	Note	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		77,195	48,887
Depreciation of fixed assets		5,389	6,231
Loss from fixed assets disposal		-	88
Income from grants		(1,201)	(1,201)
Interest income		(256,477)	(337,395)
Interest expense		48,380	113,984
Decrease in provisions for doubtful debts		(15,000)	(15,000)
Loans to customers decrease		1,586,013	672,840
Interest received		240,562	294,404
Interest paid		(32,399)	(74,544)
Net cash flow before changes in current items		<u>1,652,462</u>	<u>708,294</u>
<i>Cash flows from current items</i>			
Decrease/(increase) in accrued interest income		18,588	(14)
Decrease/(increase) in other current assets		1,083	(699)
Increase/ (decrease) in accounts payable		810	(593)
Net cash flow from operating activities		<u>1,672,943</u>	<u>706,988</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(1,822)	(6,835)
Net cash flow from investing activities		<u>(1,822)</u>	<u>(6,835)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends		(13,199)	(15,730)
Decrease in Phare Financing Agreement		(14,534)	(19,566)
(Decrease)/ increase in NEFCO Loans		(2,324,082)	(215,085)
Net cash flow from financing activities		<u>(2,351,815)</u>	<u>(250,381)</u>
Net effect of exchange rate changes on cash		7,158	-
Increase in cash		<u>(673,536)</u>	<u>449,772</u>
Cash at the beginning of year		<u>727,488</u>	<u>277,716</u>
Cash at the end of year	9	<u>53,952</u>	<u>727,488</u>

*The accompanying notes on pages 11 to 23 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 16 April 2009 and signed on his behalf by:

  
\_\_\_\_\_  
Ilze Puriņa  
Chairperson of the Board

  
\_\_\_\_\_  
Askolds Kļaviņš  
Board member

  
\_\_\_\_\_  
Romāns Mežeckis  
Board member

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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### 1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on a Order of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability company, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic funding with foreign funding to finance environmentally friendly projects by lending financial resources to public and private sector projects.

The activities of the Fund are:

- the participation in projects which yield a significant environmental benefit;
- the development and design of environmental projects;
- the monitoring implementation and operation of the projects;
- the popularisation of environmental activities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund maintains its accounting records in accordance with Latvian accounting legislation and International Financial Reporting Standards. The financial statements have been prepared from those accounting records.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with and comply with International Financial Reporting Standards as adopted by EU (IFRS) and Interpretations issued by its International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

#### **Changes in accounting policies**

The following IFRS appendices and IFRIC as adopted in the EU are amended and enter into force starting from 1 January 2008:

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures adopted on 13 October 2008 by the International Accounting Standards Board and the EU.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective from 1 March 2008). The interpretation addresses how to account for share-based payment arrangements that involve two or more entities within the same group where a subsidiary receives goods or services as remuneration for parent company's equity instruments.

IFRIC 12 Service Concession Agreements (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRS) to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 14 IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008).

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 October 2008). The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation.

These amendments produce no significant impact on the financial position and performance of the Fund.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Changes in accounting policies (cont'd)

##### IFRS and IFRIC that have been issued but are not yet effective

The Standards and Interpretations which have been issued as at the date of these financial statements but will be effective for annual periods beginning on or after 1 January 2009 and which have not been applied by the Fund retrospectively:

IFRS 8 Operating Segments (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make decisions about operating matters.

IAS 1 Presentation of Financial Statements (revised) - Capital Disclosures (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital.

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment is related to the presentation of dividends of subsidiaries in the parent's separate financial statements.

Amendment to IFRS 2 Share-based Payment (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The amendments reflect terms of application of this standard in share deals whereby a company transfers shares for no obvious consideration or for inadequate consideration.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). This amendment is related to the presentation of investment changes in separate financial statements.

IFRIC 13 Customer Loyalty Programmes (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation requires that fair value of services provided to loyal customers is stated.

IFRIC 15 Agreement for the Construction of Real Estate (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). The interpretation contains guidelines regarding accounting for non-cash assets distribution, e.g. apportionment of dividends among shareholders.

IAS 23 Borrowing Costs (revised) (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009) shall be applied in accounting for borrowing costs. This standard establishes that accounting policy adopted in respect of the borrowing costs shall be outlined.

IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation, (revised) (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009).

The Fund expects that the adoption of the pronouncements listed above will have no significant impact on the Fund's financial statements.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Reporting currency

The financial statements are presented in the national currency of Latvia, the lat (LVL).

##### Foreign currency

All monetary positions denominated in foreign currencies are translated into Latvian lats using the exchange rates at the balance sheet date as published by the Bank of Latvia. Gains and losses arising from this transaction are included in the income statement for the period. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2008.	31.12.2007.
1 EUR	LVL 0.702804	LVL 0.702804

##### Loans and credits

Loans and credits are accounted at initial value determined by adding expenses related to loan disbursement or subtracting costs of credit approval to loan or credit fair value. Afterwards loans and credits are accounted at amortized value using the effective interest rate method. Amortized value is determined taking into account loan disbursement or credit approval costs as well as any other discounts or premiums related to loans or credits. Profit or loss from amortization is disclosed in the income statement as interest income and expenses

##### Provisions for doubtful debts

The management and the Board have considered risk in determining the balance of provisions and possible loan losses. Provisions for loan losses as at the balance sheet date represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provisions.

The level of the provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as charges in the period in which they become known. Loans are stated net of provisions.

##### Fixed assets and depreciation

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Fixtures and fittings	10%
Computers and office equipment	20%
Miscellaneous office assets	30%–50%

Repairs and renewals are charged to the income statement as incurred. Fixed assets over LVL 50 are capitalised. Profits and losses arising on the disposal of fixed assets are reflected in the statement of income in the year of disposal.

## **ENVIRONMENTAL INVESTMENT FUND**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

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#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Cash**

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of less than three months.

##### **Grants**

Grants to be utilised in less than one year are transferred to income in order to match them with the related costs, which they are intended to compensate.

Fixed assets received as grants are recognised in the financial statements as deferred income. Income is recognized in the income statement over the period of the useful life of the related fixed assets in order to match the grants to the related depreciation of the fixed assets, which they are intended to compensate for.

##### **Income recognition**

Income is recognized proportionally the Fund judgment to gain economical benefit and at such level as it is reasonable justifiable, excluding value added tax and discounts related to sales. Interest income is recognized in the period it is earned. The Fund does not accrue interest on non-performing loans. Commissions, fees and other income/ expenses are recognised when earned/ incurred.

##### **Related parties**

Related parties are defined as shareholders, employees, Board members, their close relatives and companies, in which the above persons are involved in.

##### **Use of estimates**

In the process of preparation of the financial statements, the management has to make some judgments and assumptions, which has effect on some values and data in the financial reports. Therefore actual results may differ from those calculations.

##### **Taxation**

The Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization. Starting 21 October 2004 the Fund has to pay corporate income tax and dividends for use of the state capital. The Fund is not registered as a Value Added Taxpayer.

##### **Corporate income tax**

Corporate income tax is calculated by applying 15% tax rate to taxable income in period.

Deferred corporate income tax, which arises from temporary differences including some items on tax declaration form and in this financial statement, is calculated using the liability method. Deferred corporate tax assets and liabilities are estimated based on tax rates expected to be in the force when short-term differences will cease to exist. Main temporary differences arise from different fixed assets amortization rates used for accounting and tax purposes and specific, for tax purposes not deductible, provisions.

##### **Fair value of financial assets and liabilities**

Fair value represents the amount at which an asset could be sold or a liability settled at an arm's length basis.

##### **Subsequent events**

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

#### 3. INTEREST INCOME

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Interest income from loans to customers	247,268	292,579
Interest income from deposits in banks	9,209	44,816
<b>Total</b>	<b>256,477</b>	<b>337,395</b>

The interest rates received on balances with banks for the years ended 31 December 2008 and 2007 ranged from 0.30% to 8.30%.

#### 4. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 15). In accordance with the Loan agreement I, borrowers transfer the interest payments directly to NEFCO, but in accordance with the loan agreement II, the Fund pays the interest payments to NEFCO.

#### 5. OTHER OPERATING INCOME

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Decrease of provisions for doubtful debts	15,000	15,000
Services to UNDP	3,855	4,179
Income from grants of fixed assets released in reporting period	1,201	1,201
<b>Total</b>	<b>20,056</b>	<b>20,380</b>

#### 6. ADMINISTRATIVE EXPENSE

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Personal costs (excluding management):		
– salaries	42,161	57,080
– state obligatory social security payments	8,193	12,268
Management costs:		
– salaries	40,442	40,269
– state obligatory social security payments	9,847	9,828
Office rent and public utilities	20,440	19,634
Audit fee	6,608	7,906
Health insurance	2,777	3,892
Communications	2,573	2,459
Business trips	2,413	2,238
Advertising and publicity	1,517	17,664
Office supplies and stationary	1,353	1,579
Provisions for vacation expense/ (Decrease) in provisions for vacation	1,161	(615)
Other administrative expense	3,445	4,726
<b>Total</b>	<b>142,930</b>	<b>178,928</b>

The average number of persons employed by the Fund excluding the Members of the Board, Representative of State capital shareholder and Responsible officer during the years ended 31 December 2008 and 2007 was 7.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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#### 7. OTHER OPERATING INCOME

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Net gain from foreign exchange operations	11,093	128
<b>Total</b>	<b>11,093</b>	<b>128</b>

#### 8. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 50% of net profit to the state budget.

#### 9. CASH

	31.12.2008. LVL	31.12.2007. LVL
Cash on hand	138	17
Balances with banks		
- LVL current account	2,430	21,810
- LVL Visa Electron and Visa Mastercard	1,384	661
- short term deposit	50,000	705,000
<b>Total</b>	<b>53,952</b>	<b>727,488</b>

#### 10. OTHER CURRENT ASSETS

	31.12.2008. LVL	31.12.2007. LVL
Security deposit for office rent	3,480	3,089
Prepaid expense	3,226	3,226
Tax prepayments	8	2,150
Other assets	1,258	590
<b>Total</b>	<b>7,972</b>	<b>9,055</b>



ENVIRONMENTAL INVESTMENT FUND

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FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

11. LOANS TO CUSTOMERS

	31.12.2008. LVL	31.12.2007. LVL
<i>Remaining maturity</i>		
Less than one year	979,301	954,658
Within one to five years	2,056,544	2,479,369
Within five to ten years	1,548,332	2,020,525
More than ten years	436,735	1,166,907
<b>Total</b>	<b>5,020,912</b>	<b>6,621,459</b>
Provisions for doubtful debts (Note 12)	(30,000)	(45,000)
<b>Total, net</b>	<b>4,990,912</b>	<b>6,576,459</b>
<i>Analysis by sector</i>		
Water and waste water treatment	3,931,076	5,191,197
Environmentally friendly heat supply	918,485	1,067,081
Recycling and waste management	17,606	177,536
Insulation of buildings	95,245	114,845
Cleaner technology and other projects	58,500	70,800
<b>Total</b>	<b>5,020,912</b>	<b>6,621,459</b>
Provisions for doubtful debts (Note 12)	(30,000)	(45,000)
<b>Total, net</b>	<b>4,990,912</b>	<b>6,576,459</b>
<i>Customer analysis</i>		
Municipalities	3,723,053	4,952,463
Municipal companies	1,226,179	1,563,923
Private companies	71,680	105,073
<b>Total</b>	<b>5,020,912</b>	<b>6,621,459</b>
Provisions for doubtful debts (Note 12)	(30,000)	(45,000)
<b>Total, net</b>	<b>4,990,912</b>	<b>6,576,459</b>

**ENVIRONMENTAL INVESTMENT FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

**11. LOANS TO CUSTOMERS (CONTINUED)**

	31.12.2008.		31.12.2007.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	4,578,415	4,578,415	5,974,551	5,974,551
EUR	629,616	442,497	920,468	646,908
<b>Total</b>		<b>5,020,912</b>		<b>6,621,459</b>
Provisions for doubtful debts (Note 12)		(30,000)		(45,000)
<b>Total, net</b>		<b>4,990,912</b>		<b>6,576,459</b>

	31.12.2008.		31.12.2007.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	11	27,631	7	20,789
5,000 - 10,000	19	143,769	15	106,710
10,000 -- 100,000	106	3,478,714	100	3,509,634
Over 100,000	10	1,370,798	18	2,984,326
<b>Total</b>	<b>146</b>	<b>5,020,912</b>	<b>140</b>	<b>6,621,459</b>
Provisions for doubtful debts (Note 12)		(30,000)		(45,000)
<b>Total, net</b>	<b>146</b>	<b>4,990,912</b>	<b>140</b>	<b>6,576,459</b>

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 2.75% to 10%. The loans have fixed and variable interest rate. Variable interest rate is determined once in five years based on the current market situation but not more than the interest rate on loans from the State budget. Loans co-financed by NEFCO have variable interest rates determined semi-annually based on the six-month EUR LIBOR plus 1% margin.

**12. PROVISIONS FOR DOUBTFUL DEBTS**

	31.12.2008.	31.12.2007.
	LVL	LVL
At the beginning of the period	45,000	60,000
Decrease	(15,000)	(15,000)
<b>At the end of the period</b>	<b>30,000</b>	<b>45,000</b>

**ENVIRONMENTAL INVESTMENT FUND**

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**13. FIXED ASSETS**

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2007	26,235	18,995	45,230
Additions	1,822	-	1,822
At 31 December 2008	<u>28,057</u>	<u>18,995</u>	<u>47,052</u>
<i>Accumulated depreciation</i>			
At 31 December 2007	13,694	15,517	29,211
Charge for the year	3,816	372	4,188
Depreciation of grant funded fixed assets	-	1,201	1,201
At 31 December 2008	<u>17,510</u>	<u>17,090</u>	<u>34,600</u>
<i>Net book value</i>			
At 31 December 2007	12,541	3,478	16,019
At 31 December 2008	<u>10,547</u>	<u>1,905</u>	<u>12,452</u>

**14. PHARE FINANCING AGREEMENT**

An EU Phare Financing Agreement, number LE9704.02.03/ 0001/ MAIN, for 2 million euro was signed on 24 October 2000. The purpose of the financing is to assist the operation of an Environmental Credit Scheme set up under the Phare 1997 Financing Memorandum between the Government of the Republic of Latvia and the Commission of the European Communities for the Country Operational Programme for Latvia 1997. The funds disbursed under the Financing Agreement are recognised as long-term repayables. The unutilized funds or funds to be repaid to the State Treasury within 1 year are recognised as short-term repayables. Interest is not charged on funds disbursed under the Phare Financing Agreement. The amount transferred to the Fund for the project implementation under the Agreement is reflected on the Fund Balance Sheet as follows:

	31.12.2008. LVL	31.12.2007. LVL
<i>Non-current liabilities</i>		
Disbursed to clients	8,206	22,740
<b>Total</b>	<u>8,206</u>	<u>22,740</u>
<i>Current liabilities</i>		
Disbursed to clients, due in less than one year	14,534	14,534
<b>Total</b>	<u>14,534</u>	<u>14,534</u>
<b>Total</b>	<u>22,740</u>	<u>37,274</u>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

#### 15. NEFCO LOANS

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 (Loan agreement I) with the Nordic Environment Finance Corporation (NEFCO). The loan is to assist municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is up to 15 years and the interest rate is six-month EUR LIBOR plus 1%, adjusted semi-annually.

A Loan Facility Agreement for 3.0 million euro was signed on 14 November 2005 (Loan agreement II) with the NEFCO. The loan is to finance the Europe Regional Development fund co-financed municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is 6 years and the interest rate is fixed 3.5% for the first three years.

	31.12.2008.		31.12.2007.	
	EUR	LVL	EUR	LVL
<i>Received loans:</i>				
- Loan agreement I	2,929,370	2,058,773	2,929,370	2,058,773
- Loan agreement II	3,000,000	2,108,412	3,000,000	2,108,412
<b>Total draw down</b>	<b>5,929,370</b>	<b>4,167,185</b>	<b>5,929,370</b>	<b>4,167,185</b>
<i>Interest due:</i>				
- Loan agreement I	10,227	7,187	13,700	9,628
- Loan agreement II	-	-	23,042	16,194
Repaid (Loan agreement I)	(2,299,754)	(1,616,276)	(2,008,902)	(1,411,865)
Repaid (Loan agreement II)	(3,000,000)	(2,108,412)	-	-
<b>Total</b>	<b>639,843</b>	<b>449,684</b>	<b>3,957,210</b>	<b>2,781,142</b>

The total balance of the loans due in less than one year as at 31 December 2008 amounts to LVL 193 867 (at 31 December 2007: LVL 230,234).

The Fund has obligation to repay the loan to NEFCO in advance in the amount equal to Europe Regional Development fund financing received by NEFCO co-financed ultimate borrowers.

#### 16. DEFERRED INCOME

Balance as at 31 December 2007	1,966
Deferred income released in the reporting period	(1,201)
<b>Balance as at 31 December 2008</b>	<b>765</b>

Deferred income represents grants funding for fixed assets, which are credited to deferred income and released to the income statement over the life of the asset and matched with depreciation.

#### 17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2008.	31.12.2007.
	LVL	LVL
Accrued liabilities	3,502	4,088
<b>Total</b>	<b>3,502</b>	<b>4,088</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

#### 18. SHARE CAPITAL

As of 31 December 2008 the Fund's fully paid share capital was LVL 4,427,196 of 4,427,196 ordinary shares. The nominal value of ordinary share is 1 lat each.

Fully paid share capital was as follows:

	31.12.2008. LVL	31.12.2007. LVL
The Ministry of Environment	<u>4,427,196</u>	<u>4,427,196</u>

#### 19. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

##### *Corporate income tax*

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Payable corporate income tax		
Corporate income tax for the year	13,963	9,651
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	(232)	222
Actual and deferred corporate income tax for period	<u>13,731</u>	<u>9,873</u>

##### *Deferred corporate income tax:*

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Difference between fixed assets value in financial and tax accounting	1,384	1,442
Gross deferred corporate income tax assets	(996)	(822)
Deferred corporate income tax liabilities, net	<u>388</u>	<u>620</u>

##### *Actual and deferred corporate income tax compared to theoretically calculated:*

	01.01.2008. – 31.12.2008. LVL	01.01.2007. – 31.12.2007. LVL
Profit before taxes	90,926	58,760
Theoretically calculated corporate income tax 15%	13,639	8,814
Permanent differences	92	1,059
Actual and deferred corporate income tax for period	<u>13,731</u>	<u>9,873</u>

#### 20. OFF BALANCE SHEET ITEMS

##### *Committed loans granted, not drawn down*

	31.12.2008. LVL	31.12.2007. LVL
Municipal companies	-	-
Total	<u>-</u>	<u>-</u>

In accordance with the standard loan agreement the maximum available period of drawdown for loans is one year.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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#### 21. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, loans granted, cash and short-term deposits. The main purpose of these financial instruments is to ensure the proper financing of the Fund daily activities. The other financial instruments of the Fund are accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

The main financial risks arising from the Fund's financial instruments are credit risk, liquidity risk, currency risk and operating risk.

##### Interest rate risk

The Fund is not exposed to interest rate risk. Under NEFCO Loan Agreement 1, the interest on the loan is paid by the Fund's clients, who were granted loans from that financing. The Fund's policy is to ensure that the majority of the loans issued by the Fund bear a fixed interest rate. The average interest rate payable on the loans issued by the Fund is disclosed in Note 11, and the average interest rate payable on the loans received by the Fund is disclosed in Note 15.

##### Credit risk

The Fund is vulnerable to credit risk relating to disbursed loans and cash and balances with banks. The policy of the Fund ensures monitoring of the credit risk by constantly supervising client's credit history and by setting credit conditions for each client individually. Besides, the Fund constantly supervises debtors' balances in order to minimize possibility of the bad debts.

##### Liquidity risk

The Fund controls liquidity risk by maintaining sufficient level of cash and balances with banks.

##### Currency risk

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to exchange rate fluctuations. Starting 1 January 2005 the Bank of Latvia has declared fixed official lat exchange rate to euro at 0.702804. The Bank of Latvia will ensure that market rate does not differ more by 1% from the official rate. Therefore the Fund profit or loss from euro exchange rate fluctuations will not be significant, while the Bank of Latvia will maintain the above mentioned exchange rate.

##### Operating risk

The Fund's activities also involve other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human errors or fraud, information system problems and insufficient internal control and procedures. The Fund's management supervises, and the respective specialists monitor and control the above mentioned risks.

##### Fair values

The carrying amounts of all financial assets and liabilities approximate to their fair value.

#### 22. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities according to the currencies in which they are denominated is as follows:

	31.12.2008.	31.12.2007.
Monetary assets, EUR	644,433	934,167
Monetary liabilities, EUR	(639,843)	(3,957,209)
<b>Balance sheet position EUR, net</b>	<b>4,590</b>	<b>(3,023,042)</b>
<b>Balance sheet position LVL, net</b>	<b>3,226</b>	<b>(2,124,606)</b>

#### 23. RELATED PARTY DISCLOSURE

The Company has entered into transactions with companies with state shareholding. The major transactions are with VAS Latvenergo, SIA Lattelekom, SIA Latvijas Mobilais Telefons. All transactions are related to the core activities of the respective parties.

**ENVIRONMENTAL INVESTMENT FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

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**24. SUBSEQUENT EVENTS**

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto